

2006-2007 ANNUAL REPORT

SPECIAL REVENUE FUNDS

Anti-Tobacco Master Settlement Agreement Revenue Fund

The attorney generals of most states and the major United States tobacco companies agreed to settle more than 40 pending lawsuits brought by states against the tobacco industry. This fund accounts for monies received through the Master Settlement Agreement (MSA) signed by parties to the lawsuit on November 23, 1998. This fund is commonly referred to as the Healthy Neighborhoods Venture Fund (HNVF).

Anti-Tobacco Master Settlement Agreement Revenue Fund

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 10,907	\$ 11,433	\$ 526	4.8%
<i>Expenditure</i>	13,646	13,241	405	3.0%
<i>Fund Balance (est.)</i>	4,079 *	4,901	822	20.2%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The \$526,000 revenue variance is primarily the result of higher than budgeted revenue from the master tobacco settlement (\$436,000) and interest earnings (\$84,000). The amount of each year's tobacco settlement payment is difficult to estimate and subject to change depending on a number of factors including inflation, sales by the tobacco industry, and changes in market shares of the settling tobacco companies. Thus, variances between the projected and actual amounts are likely to continue to occur.

The expenditure variance of \$405,000 also reflects primarily the lower than budgeted expenditures for Homework Centers (\$189,000) and staff costs related to the administration of the HNVF Program (\$109,000). There were no expenditures for the Summer Art Studios and Studio 110 project (\$40,000) and School-To-Career Program (\$53,000) as a result of the projects being cancelled due to the project sponsors' inability to provide financial audit reports. No unexpended funds are recommended to be rebudgeted to 2007-2008 at this time.

The 2006-2007 ending fund balance is higher than estimated due to the combination of unexpended project funds and higher than anticipated revenues as discussed above. The additional interest earnings will be added to the interest earnings reserve per Council policy. Also recommended in this report is the addition of two 0.50 part-time Cook positions for the Addressing the Gaps in Aging Services Program. These limit-dated positions will support the Cook-on-Site Programs at both locations and will be funded by the existing allocation in the Healthy Neighborhoods Venture Fund and by a grant from the Council on Aging of Silicon Valley.

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SPECIAL REVENUE FUNDS (CONT'D.)

Benefit Funds

The Benefit Funds consist of the Dental Insurance, Life Insurance, Unemployment Insurance, and Benefit Funds. These funds account for the provision and financing of benefits to City employees, retirees, and their dependents.

Introduction

The Benefit Funds are designed to generate revenues sufficient to cover administrative costs, anticipated claims, premiums, expenditures, and the claims reserve for each fund when applicable. Benefit rates are then determined to produce the necessary revenues to cover the projected costs.

These funds are not designed to carry significant unrestricted fund balances, though they do carry adequate claims reserves. Therefore, when unrestricted fund balances increase beyond reasonable levels as a result of higher revenues than expenditures in a particular year, the budgets for the following year are developed with the intention of reducing those balances through rate adjustments. Conversely, rates are increased to augment claims reserves as needed.

Benefit Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 70,292	\$ 69,558	\$ (734)	(1.0%)
<i>Expenditure</i>	71,459	69,518	1,941	2.7%
<i>Fund Balance (est. *)</i>	5,375 *	6,122	747	13.9%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Overview of 2006-2007 Activity by Fund

- **Dental Insurance Fund:** Revenues were above the modified budget (\$11.2 million) by 0.7% or \$80,000. Revenues were slightly higher than anticipated due to higher interest earnings and retirement fund contributions offset by lower than budgeted participant contributions and city contributions in the dental plan. Expenditures were below budget by \$268,000 (2.3%). The negative expenditure variance reflects lower than budgeted claims costs for the Delta Dental Plan and for the HMO (health maintenance organization) dental plan, as well as savings in both Personal and Non-Personal/Equipment appropriations. The fund balance exceeded estimated levels by \$230,000, primarily due to higher than anticipated participant contributions and reimbursements from City and Retirement Funds.

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SPECIAL REVENUE FUNDS (CONT'D.)

Benefit Funds (Cont'd.)

Overview of 2006-2007 Activity by Fund (Cont'd.)

- Life Insurance Fund: Revenues ended the year at slightly higher than the budgeted estimate (2.5%, or \$39,000). Revenues were higher due to higher than expected interest earning (\$12,000) and reimbursements from City funds (\$31,000), offset by lower than expected participant contributions (\$4,000). Expenditures were \$10,000, or 0.7%, lower than budgeted. The variance in expenditures was mainly due to savings in both Personal and Non-Personal/Equipment appropriations. The year-end fund balance was lower than estimated (\$15,000) due to higher than estimated expenditure levels, partially offset by higher than estimated revenue collections.
- Unemployment Insurance Fund: Revenues ended the year below budgeted estimate levels by 7.2%, or \$19,000, primarily due to lower collections through the interfund charge process. Expenditures were \$582,000 lower than the modified budget level of \$1.2 million largely due to the lower than budgeted level of unemployment claims. The fund balance exceeded estimated levels by \$300,000, primarily reflecting lower than estimated expenditure levels.
- Benefit Fund: Revenues and expenditures within this fund represent the amount City departments contribute to several specific employee benefits. Health coverage is the largest of the benefits, but also included are revenues and expenditures for AFSCME (American Federation of State, County, and Municipal Employees) legal assistance, OE3 (Operating Engineers Local 3) vision care, FICA-Medicare payments, and PTC-457 Program (part-time, temporary, and contractual employees contributions for retirement).

Revenues ended the year below the modified budget level by 1.5% or \$834,000, and expenditures were lower than the budgeted level by 1.9%, or \$1.1 million. These variances were primarily due to lower than budgeted revenues and expenditures related to health coverage, Employee Assistance Program, FICA-Medicare payments, Operating Engineers Vision, PTC Payments, and Personal Services.

The fund balance was higher than estimated levels by \$237,000. This reflects the impact of lower than budgeted expenditures, partially offset by lower than estimated revenues.

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SPECIAL REVENUE FUNDS (CONT'D.)

Business Improvement District Fund

The Business Improvement District Fund was established to collect and account for assessments imposed by the City for the general promotion of business activities in and improvements to the districts.

***Business Improvement
District Fund***

<i>(000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,704	\$ 2,591	\$ (113)	(4.2%)
<i>Expenditure</i>	3,224	2,905	319	9.9%
<i>Fund Balance (est. *)</i>	605 *	520	(85)	(14.0%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Total revenues of \$2.6 million were below the budgeted estimate by \$113,000. The variance was due to lower than estimated collections in the following categories: Hotel assessments (\$82,000), Downtown assessments (\$15,000), Willow Glen assessments (\$9,000), and Japantown assessments (\$7,000).

Expenditures were below estimated budget levels by \$319,000 due to savings in the Hotel Business Improvement District (\$243,000), Downtown Business Improvement District (\$64,000), Willow Glen Business Improvement District (\$11,000), and Japantown Business Improvement District (\$1,000).

The 2006-2007 ending fund balance negative variance of \$85,000 reflects the combined impact of lower than anticipated revenues (\$119,000), slightly offset by lower than anticipated expenditures (\$34,000).

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SPECIAL REVENUE FUNDS (CONT'D.)

Cash Reserve Fund

The Cash Reserve Fund is a revolving fund for the payment of authorized expenditures for any fiscal year in anticipation of and before the collection of taxes and other revenues, and for payment of authorized expenses for any fiscal year that must be paid prior to the receipt of tax payments and other revenues.

Cash Reserve Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ -	\$ -	\$ -	N/A
<i>Expenditure</i>	-	-	-	N/A
<i>Fund Balance (est.)*</i>	5 *	5	-	0.0%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Revenues of \$192 were 47.7% (\$62) above the budgeted revenue estimate, reflecting higher than anticipated interest revenues. There were no expenditures in this fund in 2006-2007.

The 2006-2007 ending fund balance ended the year \$62 higher than the estimated level. This is due to higher than anticipated revenues, as mentioned above.

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SPECIAL REVENUE FUNDS (CONT'D.)

City Hall Debt Service Fund

The City Hall Debt Service Fund collects transfers from the General Fund, Special Funds, and Capital Funds in order to fund debt service related to the new City Hall, City Hall off-site employee parking garage, and furniture, fixtures and equipment costs. Each fund's share of costs is determined annually by the Finance Department based on each fund's fair-share allocation.

***City Hall Debt
Service Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 27,684	\$ 26,487	\$ (1,197)	(4.3%)
<i>Expenditure</i>	27,684	25,593	2,091	7.6%
<i>Fund Balance (est. *)</i>	950 *	894	(56)	(5.9%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$1.2 million is the result of budgeted interest earnings received in a separate trustee-held fund and credited to this fund through a reduction in debt service payments. An offsetting reduction in expenditures occurred as a result of this credit.

The positive expenditure variance primarily reflects lower than budgeted City Hall and City Hall Garage debt service payments and a credit of interest earnings mentioned above.

The 2006-2007 negative fund balance variance of \$56,000 resulted from lower than estimated revenues (\$1.7 million), partially offset by lower than estimated expenditures (\$1.6 million). Since the 2007-2008 Adopted Budget assumed a 2006-2007 ending fund balance of \$950,000 and no 2007-2008 ending fund balance, an upward adjustment to the estimate for interest earnings for 2007-2008 is recommended in this document to offset the negative fund balance variance reported above. The interest earnings projection and the rates charged to fund debt service payments are evaluated and recalculated annually during the budget process to ensure that each fund is charged its fair-share allocation.

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SPECIAL REVENUE FUNDS (CONT'D.)

Community Development Block Grant Fund

The Community Development Block Grant Fund accounts for federal grant monies received from the U.S. Housing Urban and Development Department under Title II of the Housing and Community Development Act of 1974 and Rental Rehabilitation Program funds.

***Community
Development
Block Grant Fund***

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 11,614	\$ 11,905	\$ 291	2.5%
<i>Expenditure</i>	18,227	13,851	4,376	24.0%
<i>Fund Balance (est.)</i>	7,249 *	9,026	1,777	24.5%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The \$291,000 revenue variance is primarily the result of higher than anticipated collections related to loan repayments and miscellaneous revenues. Specifically, additional revenue resulted from an increase in economic development assistance loans, pre-development loan repayments, miscellaneous revenue, and housing rehabilitation loan repayments.

The \$4.4 million expenditure variance reflects unexpended project funds. Of this amount, \$1.3 million was rebudgeted as part of the 2007-2008 Adopted Operating Budget. The projects rebudgeted include Yu-Ai-Kai Acquisition (\$323,000), Japan Town Rest Areas and Streetscape (\$50,000), O'Connor Park Restroom Building (\$250,000), Alma Community Center (\$286,000), and Gateway East Sanitary Sewers (\$400,000). Additional rebudgets of \$171,000 of unexpended funds are recommended in this report.

The remaining expenditure variance reflects unexpended project funds (\$2.9 million). This is primarily from lower than budgeted expenditures for Housing Rehabilitation Loans and Grants, Housing Improvement Projects such as Housing and Energy Services, the Anti-Graffiti Program, and the Anti-Litter Program, as well as Economic Development projects including the Economic Development Administration (EDA) Revolving Loan Program, and the MERLIN San José Assistance Center. In addition, expenditure savings in the areas of Planning, CDBG Administration, and Code Enforcement were realized.

The 2006-2007 ending fund balance is \$1.8 million higher than estimated primarily due to lower than estimated expenditure levels.

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SPECIAL REVENUE FUNDS (CONT'D.)

Community Facilities Revenue Fund

The Community Facilities Revenue Fund was established to account for the financing and operation of the Hayes Conference Center. Effective January 1, 2004, Dolce International/San José, Inc. (Dolce) was appointed the new manager of the facility under the terms of a ten-year (with options to extend) management agreement with the City. As part of the agreement, Dolce transfers the necessary money from Hayes Mansion operations to this fund for debt service payments and to reimburse the City for some operating costs, such as insurance.

***Community Facilities
Revenue Fund***

(000s)	Budget		Actual		Variance	Percent Variance
<i>Revenue</i>	\$	9,143	\$	9,306	\$ 163	1.8%
<i>Expenditure</i>		9,041		8,415	626	6.9%
<i>Fund Balance (est.)</i>		668 *		1,098	430	64.4%

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

The revenue variance of \$163,000 is primarily due to the higher than expected transfers for reimbursement for city expenses (\$152,000) and interest earnings (\$75,000), partially offset by lower than expected transfers from Dolce for debt services payments (\$65,000).

The expenditure variance of \$626,000 is due to savings from the Hayes Capital Improvement project (\$402,000) and debt service payments (\$224,000). A rebudget of \$150,000 for the Hayes Capital Improvement project is recommended in this report.

In developing the 2007-2008 Adopted Operating Budget, a review of both revenues and expenditures at the facility was completed in order to address any shortfall. Although there was some improvement in revenues in 2006-2007 compared to 2005-2006, revenue performance is not expected to occur at a level sufficient to cover operating expenses plus debt service in the near future. A transfer from the General Fund in the amount of \$4.43 million to the Community Facilities Revenue Fund was approved to address the shortfall and included in the 2007-2008 Adopted Operating Budget.

The 2006-2007 ending fund balance is \$430,000 higher than estimated primarily due to the combination of higher than expected revenues and lower than expected expenditures. The fund balance is intended to remain in a reserve for future debt service payments.

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SPECIAL REVENUE FUNDS (CONT'D.)

Convention and Cultural Affairs Fund

The Convention and Cultural Affairs Fund was established to account for operations of the San José McEnery Convention Center, the Center for the Performing Arts (CPA), Civic Auditorium, Montgomery Theater, Exhibit Hall, and their related facilities and grounds.

***Convention and
Cultural Affairs Fund***

<i>(000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 16,353	\$ 18,324	\$ 1,971	12.1%
<i>Expenditure</i>	15,356	14,972	384	2.5%
<i>Fund Balance (est.)</i>	2,088 *	4,080	1,992	95.4%

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

The Convention and Cultural Affairs Fund accounts for the operation of the City's Convention Facilities that are managed by Team San José. In 2006-2007, activity at the Convention Facilities generated higher than anticipated revenues. The actual revenue collections were \$1.97 million above the budgeted level. A significant portion of this amount was \$1.15 million of unbudgeted capital improvement funding from the General Fund transferred into this fund so that Team San José could issue checks for various vendors. The remaining amount is due to higher than anticipated space rental and concessionary income (\$921,000), offset by lower than estimated parking revenue (\$92,000) and interest earnings (\$5,000).

Total expenditures in this fund are below budget by \$384,000. Saving occurred in Workers' Compensation Claims (\$118,000), Insurance Expenses (\$33,000), Personal Services appropriation (\$20,000), and minor savings in other areas.

The 2006-2007 ending fund balance is \$1,992,000 higher than estimated primarily due to the unbudgeted capital transfer and a combination of higher than expected revenue and lower than estimated expenditures. The \$1.15 million unbudgeted capital improvement funding that was transferred into this fund from the General Fund is recommended to be appropriated in the report in this fund so that the Finance Department can properly record the related 2006-2007 expenditures. Also, as part of this document, \$150,000 of additional 2006-2007 Transient Occupancy Tax revenue is recommended to be recognized and appropriated in this fund. TOT Fund tax revenue is by ordinance shared by three groups, the Convention Facilities Operation Subsidy (50%), the San José Convention and Visitors Bureau (25%), and Cultural Grants (25%). This report, therefore, contains the proposed appropriation adjustment actions required to

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SPECIAL REVENUE FUNDS (CONT'D.)

Convention and Cultural Affairs Fund (Cont'd.)

distribute the excess collection to the three groups. In addition, per prior City Council direction, \$500,000 of the fund balance is recommended to set aside in a sinking fund for future capital improvements at the Convention Center.

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SPECIAL REVENUE FUNDS (CONT'D.)

Economic Development Administrative Loan Fund

The Economic Development Administrative Loan Fund was established to account for federal funds and loan repayment that provide loans to small businesses for business expansion, remodeling, working capital, equipment, or other specified uses with the goal of generating additional employment opportunities as a result of such assistance to businesses within the City of San José.

***Economic Development
Administrative Loan
Fund***

(000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 58	\$ 60	\$ 2	3.4%
<i>Expenditure</i>	56	54	2	3.6%
<i>Fund Balance (est. *)</i>	51 *	55	4	7.8%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Total revenues (\$60,000) were higher than the budgeted estimate by \$2,000. The variance was due to higher than anticipated revenues from loan repayments (\$1,000) and interest earnings (\$1,000). Expenditures were below the budgeted levels by \$2,000 due to savings in small business loans.

The 2006-2007 ending fund balance positive variance of \$4,000 reflects the combined impact of lower than anticipated expenditures (\$2,000) and higher than anticipated revenues (\$2,000).

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SPECIAL REVENUE FUNDS (CONT'D.)

Economic Development Enhancement Fund

The Economic Development Enhancement Fund was established to account for grants and interest income to assist San José small businesses by providing loan guarantees to lenders for transactions that do not meet traditional banking standards and to provide direct loans to eligible and qualified borrowers to close the gap in financing when the lender does not provide the total amount of funds requested.

***Economic Development
Enhancement Fund***

(000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 354	\$ 327	\$ (27)	(7.6%)
<i>Expenditure</i>	1,459	1,209	250	17.1%
<i>Fund Balance (est. *)</i>	528 *	751	223	42.2%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Total revenues (\$327,000) were lower than the budgeted estimate by \$27,000. The variance was due to lower than anticipated revenues from loan repayments (\$171,000) and is partially offset by higher than anticipated revenues from principal repayments (\$120,000) and interest earnings (\$24,000).

Expenditures were below estimated budget levels by \$250,000 due to savings in loan guarantees (\$120,000) and loan administration (\$86,000). The Economic Development Catalyst Program also generated savings of \$109,000 and a portion of the unexpended funds is recommended as part of this document for rebudget into 2007-2008.

The 2006-2007 ending fund balance positive variance of \$223,000 reflects the combined impact of lower than anticipated expenditures (\$250,000), slightly offset by lower than anticipated revenues (\$27,000).

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SPECIAL REVENUE FUNDS (CONT'D.)

Edward Byrne Memorial Justice Assistance Grant Trust Fund

The Edward Byrne Memorial Justice Assistance Grant Trust Fund (JAG) was established when the Bureau of Justice Assistance discontinued the Local Law Enforcement Block Grant Program in 2004. The funds are used to support a broad range of activities to prevent and control crime and to improve the criminal justice system.

***Edward Byrne Memorial Justice
Assistance Grant Trust Fund***

(\$000s)	Budget		Actual		Variance	Percent Variance
<i>Revenue</i>	\$	555	\$	274	\$ (281)	(50.6%)
<i>Expenditure</i>		554		288	266	48.0%
<i>Fund Balance (est. *)</i>		308 *		283	(25)	(8.1%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

This fund receives monies from the United States Department of Justice, Bureau of Justice Assistance. The funding is awarded each fiscal year in the form of a two-year grant. Any funds unexpended or unencumbered by the end of the two-year grant cycle must be returned to the federal government, along with any interest earnings.

The 2006-2007 revenue variance of (\$281,000) is the result of the 2005-2007 JAG grant revenue being collected in 2005-2006, and the revenue was incorrectly rebudgeted to 2006-2007.

The 2006-2007 expenditure variance of \$266,000 is the result of 2006-2008 JAG grant funds not being fully expended. These remaining funds were rebudgeted in the 2007-2008 Adopted Budget.

The 2006-2007 negative ending fund balance variance of \$25,000 is the result of higher than anticipated expenditures in the 2006-2008 JAG grant, causing the allocation not to achieve sufficient year-end savings to cover the original rebudget amount. As a result, downward adjustments are recommended to these appropriations in this document.

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SPECIAL REVENUE FUNDS

Emergency Communication System Support Fee Fund

This fund accounts for the receipt of all money received for the eligible portion of operating costs and project costs related to the operation of the San José 911 emergency communication system for telephone subscribers who are subject to the Emergency Communication System Support Fee collected pursuant to the provisions of Chapter 8.20 of Title 8 of the San José Municipal Code.

***Emergency Communication
System Support Fee
Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 20,600	\$ 23,251	\$ 2,651	12.9%
<i>Expenditure</i>	20,600	20,600	-	0.0%
<i>Fund Balance (est.)</i>	3,609 *	4,361	752	20.8%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The \$2.7 million revenue variance is the result of higher than budgeted Emergency Communication System Support fees collected. This collection level reflects growth of 8.1% from the 2005-2006 collection level of \$21.5 million, which was due to increases in the number of telephone lines for which the fee is assessed. No fee increases were implemented in 2006-2007.

The revenue collected in this fund is transferred to the General Fund to support the Emergency Communication System. The transfer of \$20.6 million occurred as budgeted for 2006-2007. In addition to analyzing the performance in this fund, an initial comparison of actual 2006-2007 costs to deliver the Emergency Communication System services in the General Fund and revenues generated from the Emergency Communication System fee was completed to determine if any adjustment to the amount transferred to the General Fund to support the costs of the program was necessary. This analysis indicated that an additional \$86,000 would be available to transfer to the General Fund. This would, however, leave fund balance remaining in the Emergency Communication System Support Fee Fund. This fund balance has resulted from revenues increasing at a faster rate than anticipated and expenditure savings occurring in the Emergency Communication System. Any adjustments to the fee and the transfer to the General Fund will be factored in to the development of the 2008-2009 Proposed Budget.

The 2006-2007 ending fund balance is higher than estimated due to the higher than estimated Emergency Communication System Support fees collected.

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SPECIAL REVENUE FUNDS (CONT'D.)

Emergency Reserve Fund

The Emergency Reserve Fund accounts for reserves established from local revenues to meet public emergencies.

***Emergency Reserve
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ -	\$ -	\$ -	N/A
<i>Expenditure</i>	-	-	-	N/A
<i>Fund Balance (est. *)</i>	4,591 *	4,591	-	N/A

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

There were no revenues or expenditures in this fund in 2006-2007.

The 2006-2007 ending fund balance ended the year at the estimated level.

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SPECIAL REVENUE FUNDS (CONT'D.)

Federal Drug Forfeiture Fund

The Federal Drug Forfeiture Fund was established to account for all monies received by the City from the federal government pursuant to the drug abuse prevention and control provisions of Title 21, Chapter 13 of the United States Code. Federal guidelines for this Fund stipulate that seizure monies are to be used for the financing of programs or costs required for the direct or indirect enhancement of narcotics-related enforcement activities.

***Federal Drug
Forfeiture Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 25	\$ 471	\$ 446	1784.0%
<i>Expenditure</i>	38	38	-	0.0%
<i>Fund Balance (est. *)</i>	976 *	1,353	377	38.6%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

City Council guidelines for this Fund stipulate that seizure monies are to be used for financing of programs or costs required for the direct or indirect enhancement of narcotics-related enforcement activities. There are no time restrictions dictating when the money must be expended or encumbered.

The 2006-2007 revenue variance of \$446,000 is primarily the result of higher than estimated revenue from the federal government.

The 2006-2007 fund balance variance of \$377,000 is the result of higher than estimated revenue collections.

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SPECIAL REVENUE FUNDS (CONT'D.)

Gas Tax Maintenance and Construction Funds

The Gas Tax Maintenance and Construction Funds represent the City's portion of the State collected Gas Tax. Revenues are restricted for acquisition, construction, improvement, and maintenance of public streets subject to provisions of the Streets and Highways Code of the State of California and to provide for Traffic capital improvements.

Gas Tax Maintenance and Construction Funds

<i>(000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 17,200	\$ 17,200	\$ -	0.0%
<i>Expenditure</i>	17,200	17,200	-	0.0%
<i>Fund Balance (est.)</i>	- *	-	-	N/A

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The \$17.2 million in Gas Tax revenues were transferred to the General Fund as budgeted. There were no year-end variances in the three Gas Maintenance and Construction Funds.

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SPECIAL REVENUE FUNDS (CONT'D.)

Gift Trust Fund

This fund receives gifts, donations, and bequests and accounts for their expenditures.

Gift Trust Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 487	\$ 672	\$ 185	38.0%
<i>Expenditure</i>	2,439	704	1,735	71.1%
<i>Fund Balance (est. *)</i>	2,090 *	1,919	(171)	(8.2%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Revenues were 38.0% above (\$185,000) the budgeted revenue estimate in 2006-2007 due to the recognition of interest earnings and the receipt of unanticipated gifts.

Expenditures were 71.1% below (\$1,735,000) the budgeted level. Many of the cash gifts that the City receives are restricted for very specific purposes. In many cases the departments need to pool several gifts together until an expenditure can be made, therefore expenditures in this fund often are far lower than the budgeted level. All project savings are recommended in this document to be carried forward to 2007-2008, as this fund is appropriated according to the available cash balance.

The 2006-2007 ending fund balance ended the year \$171,000 below the estimated level due to higher than anticipated expenditures in 2006-2007. This reduction does not reduce the total funding available for any particular project, but rather reconciles the fund balance to the actual amount of cash in the fund at the end of 2006-2007.

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SPECIAL REVENUE FUNDS (CONT'D.)

Home Investment Partnership Program Fund

The Home Investment Partnership Program Act, enacted by Congress in 1990, established a program of federal assistance to State and local governments for affordable housing projects. The City established the Home Investment Partnership Program Fund (HOME) in 1993-1994 to utilize the available federal funding for activities associated with housing rehabilitation and new construction. This fund is also utilized for federal Rental Rehabilitation Program activities.

***Home Investment
Partnership Program
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 13,254	\$ 4,904	\$ (8,350)	(63.0%)
<i>Expenditure</i>	13,173	6,822	6,351	48.2%
<i>Fund Balance (est.)</i>	255 *	(1,842)	(2,097)	(822.4%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The expenditures in this fund are primarily allocated as loans and grants for the development of affordable housing. The U.S. Department of Housing and Urban Development (HUD), the main funding agent, allows the Housing Department a maximum of two years to commit to a project and three more years for completion of a project.

Generally, variances in revenue and expenditures are due to delays in capital projects that qualified for federal funds. As expenditures are incurred, HOME funds are disbursed to the City as reimbursement revenue. For 2006-2007, the negative revenue variance is primarily due to lower than budgeted grant revenue received, offset by higher than budgeted revenue from loan repayments.

The positive expenditure variance reflects savings in nearly every budgeted appropriation; however, the majority of the savings were realized in the Home Loans and Grants category due to delays in completing capital projects qualified for federal funds as described above.

The negative fund balance variance of \$2.1 million results in a negative ending fund balance of \$1.8 million in this fund. This variance is entirely due to the Neighborhood Housing Services Silicon Valley project. A portion of the expenditures for this project (\$2.1 million), which were programmed in 2007-2008, were either expensed (\$100,000) or encumbered (\$2.0 million) in 2006-2007. The encumbrance has since been liquidated, however the liquidation occurred in

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SPECIAL REVENUE FUNDS (CONT'D.)

Home Investment Partnership Program Fund (Cont'd.)

2007-2008. A recommendation to certify additional revenue in the amount of \$2.0 million, thereby increasing the ending fund balance, is recommended in this document in order to avoid a negative 2007-2008 ending fund balance. Also recommended in this document is a decrease to the Home Loans and Grants appropriation in the amount of \$100,000 to account for the unanticipated 2006-2007 expenditure.

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SPECIAL REVENUE FUNDS (CONT'D.)

Housing Trust Fund

The Housing Trust Fund was established to assist non-profit service providers and organizations by providing one-time grants for housing and homeless related projects.

<i>Housing Trust Fund</i>					
<i>(\$000s)</i>					
	Budget		Actual		Percent Variance
<i>Revenue</i>	\$	2,423	\$	3,122	\$ 699 28.8%
<i>Expenditure</i>		4,034		1,849	2,185 54.2%
<i>Fund Balance (est.)</i>		1,401 *		4,199	2,798 199.7%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

This fund was established with an initial balance of almost \$2.0 million in one-time funds from the defeasance of 1983 through 1985 Single Family Mortgage Revenue Bonds. It has no identified source of ongoing funding. Over the years, however, additional funding has been allocated from various sources such as Proposition 46 grants, bond administration fees, tax credit application review fees, and in-lieu fees from housing developers in Redevelopment Project Areas, among others. These funding sources are, however, by their nature unpredictable.

The revenue and expenditure variances in this fund were primarily due to a delay in processing an escrow transaction within the Workforce Housing Program for the Unity Care Group II project. This project, funded by Proposition 46 grant revenue, is anticipated to be completed in 2007-2008. Therefore, all Proposition 46 related revenue and expenditures are recommended in this report to be rebudgeted to 2007-2008.

The 2006-2007 ending fund balance variance of \$2.8 million is primarily the result of higher than anticipated revenues from the inclusionary in-lieu fees, offset by lower than anticipated revenues from Proposition 46 grants as well as lower than anticipated expenditures for the Proposition 46 projects as mentioned above.

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SPECIAL REVENUE FUNDS (CONT'D.)

Ice Center Revenue Fund

The Ice Center Revenue Fund accounts for the rental revenues received from the Ice Rink Center operations, and provides for the accumulation and transfer of base rental income to the debt service fund for repayment of the debt and for repairs and improvements at the Ice Centre.

***Ice Center Revenue
Fund***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,307	\$ 1,859	\$ (448)	(19.4%)
<i>Expenditure</i>	3,271	2,958	313	9.6%
<i>Fund Balance (est.)</i>	4,568 *	4,150	(418)	(9.2%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

The negative revenue variance of \$448,000 reflects mainly lower than expected revenue from rental income (\$541,000) due to less activity, partially offset by higher than expected revenue in interest earnings (\$93,000).

The expenditure variance of \$313,000 reflects the combined impact of lower than expected expenditures for the Repairs and Improvements project (\$197,000) and Debt Service payment (\$113,000). A rebudget of \$150,000 for the Repairs and Improvement project is recommended in this report.

The 2006-2007 ending fund balance is lower than estimated due to the combination of lower than expected revenues and lower than estimated expenditures. There is no negative impact to programs in this fund as there is sufficient fund balance to absorb this shortfall.

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SPECIAL REVENUE FUNDS (CONT'D.)

Integrated Waste Management Fund

The Integrated Waste Management (IWM) Fund was established July 1, 1994. The fund collects revenues from the City's Recycle Plus Program and through fees on other solid waste services as authorized by AB 939, the State law requiring cities to reduce waste landfill by 50% by the year 2000 and maintain this diversion rate every year thereafter. This fund is expended for programs related to the City's efforts to comply with that law, along with other integrated waste management services.

***Integrated Waste
Management Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 86,731	\$ 88,264	\$ 1,533	1.8%
<i>Expenditure</i>	93,952	90,568	3,384	3.6%
<i>Fund Balance (est.)</i>	8,067 *	11,117	3,050	37.8%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

Revenue ended the year approximately 1.8% above (\$1.5 million) the budgeted level. The positive variance resulted primarily from higher than budgeted revenues from Recycle Plus lien-related charges and late fees (\$824,000), interest earnings (\$792,000), and Integrated Billing System Commercial Paper proceeds (\$324,000). The positive variance was primarily offset by lower than budgeted Recycle Plus collection charges (\$645,000).

Expenditures in this fund ended the year with savings of \$3.4 million (3.6% below budgeted levels). Savings occurred primarily in the Environmental Services Department's Personal Services appropriation (\$183,000) and Non-Personal/Equipment appropriation (\$1.3 million); and from the City's Garbage Disposal Agreement savings (\$1.3 million). Savings also occurred in the Finance Department (\$295,000), Information Technology Department (\$36,000), Department of Transportation (\$31,000), Neighborhood Cleanups (\$9,500), and the Office of the City Manager (\$8,000). Lower than anticipated costs resulted in savings in Workers Compensation Claims (\$68,000), Overhead costs (\$117,000), and Delinquent Liens Releases (\$16,000). A portion of the savings was assumed and rebudgeted as part of the 2007-2008 Adopted Operating Budget. In addition, the following augmentations are recommended as part of this report: \$410,000 for Household Hazardous Waste Facility, \$300,000 for Waste Characterization Study, \$200,000 for Neighborhood Cleanups RFP, \$200,000 for CWS Material Recovery Facility, \$165,600 for Recycle Plus Contract, and \$120,000 for Yard Trimmings/Street Sweeping contract.

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SPECIAL REVENUE FUNDS (CONT'D.)

Integrated Waste Management Fund (Cont'd.)

The positive ending fund balance variance (\$3 million) is a result of the combined impact of the higher than estimated revenues and lower than anticipated expenditures. As discussed above, a portion of the additional fund balance is recommended to be rebudgeted to 2007-2008 for Integrated Waste Management services.

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SPECIAL REVENUE FUNDS (CONT'D.)

Library Benefit Assessment District Fund

The Library Benefit Assessment District (BAD) program was approved by City Council following an advisory measure on the November 1994 ballot. The BAD program provided needed funding to acquire new books and materials, to improve educational programs, and to repair and upgrade libraries. The benefit assessment fee began in 1995-1996 and was to be collected for a period not to exceed 10 years. 2004-2005 was the tenth and final implementation year of the Library Benefit Assessment. In anticipation of the 2004-2005 sunset, the City included a measure in the November 2004 election for a new tax beginning in 2005-2006. The measure passed, therefore, starting in 2005-2006 the Library Parcel Tax replaced the Library Benefit Assessment District.

***Library Benefit
Assessment District
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 42	\$ 19	\$ (23)	(54.8%)
<i>Expenditure</i>	131	120	11	8.4%
<i>Fund Balance (est.)</i>	0 *	0	0	N/A

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Revenues in this fund in 2006-2007 were made up entirely of interest earnings, and almost all expenditures were completed as planned. Before year-end, the Finance and Library Departments coordinated to ensure that all remaining project budgets and interest earnings were expended. This fund ended the year with no fund balance and will therefore no longer be a budgeted fund.

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SPECIAL REVENUE FUNDS (CONT'D.)

Library Parcel Tax Fund

The Library Parcel Tax program was approved by the voters of the City of San José on November 4, 2004 to provide funding for Library purposes such as acquisition of library books and materials; development and delivery of homework and educational programs; and repair, equipping, and staffing of libraries.

***Library Parcel
Tax Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 6,325	\$ 6,633	\$ 308	4.9%
<i>Expenditure</i>	8,569	4,891	3,678	42.9%
<i>Fund Balance (est.)</i>	2,505 *	5,672	3,167	126.4%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The 2006-2007 year-end revenues had a positive variance of \$308,000 primarily due to higher than anticipated tax collections. Total expenditures ended the year \$3.7 million below budgeted levels due to lower than anticipated expenditures for the Personal Services appropriation (\$1.6 million), Automation Projects (\$1.1 million), and Acquisition of Materials (\$881,000). Approximately \$700,000 was rebudgeted in the 2007-2008 Adopted Capital Budget for Acquisition of Materials, and an additional \$200,000 for personal services costs is recommended for rebudget as part of this document.

The higher ending fund balance (\$3.2 million) is the result of the combined impact of the lower than estimated expenditures and higher than estimated revenues. As discussed above, \$200,000 of this additional fund balance is recommended to be rebudgeted to 2007-2008. The higher than anticipated fund balance will be preserved for future administrative expenses or related capital projects.

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SPECIAL REVENUE FUNDS (CONT'D.)

Local Law Enforcement Block Grant Fund

The Local Law Enforcement Block Grant (LLEBG) Fund, which ended in 2004 and was replaced by the Edward Byrne Justice Assistance Grant, provides funding to units of local government to underwrite projects that reduce crime and improve public safety. The LLEBG Program emphasizes local decision-making and encourages communities to craft their own responses to local crime and drug problems.

***Local Law Enforcement
Block Grant Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2	\$ 3	\$ 1	50.0%
<i>Expenditure</i>	223	223	-	0.0%
<i>Fund Balance (est. *)</i>	26 *	26	-	0.0%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

This fund received monies from the United States Department of Justice, Bureau of Justice Assistance. The funding was awarded each fiscal year in the form of a two-year grant. Any funds unexpended or unencumbered by the end of the two-year grant cycle had to be returned to the federal government, along with any interest earnings. In 2007-2008, San José plans to close out the remaining LLEBG Grants with the federal government, and the LLEBG Fund will be eliminated once the fund balance goes to zero.

The 2006-2007 revenue variance of \$1,000 is the result of higher than anticipated interest earnings.

All remaining unexpended and unencumbered funding and interest earnings has been appropriated to be returned to the federal government in order to close out the remaining LLEBG grants.

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SPECIAL REVENUE FUNDS (CONT'D.)

Low and Moderate Income Housing Fund

The Low and Moderate Income Housing Fund accounts for the 20% tax increment monies received from the San José Redevelopment Agency (SJRA) for the purposes of increasing and improving the supply of low- and moderate-income households in the City of San José.

***Low and Moderate
Income Housing
Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 70,419	\$ 47,963	\$ (22,456)	(31.9%)
<i>Expenditure</i>	103,451	89,013	14,438	14.0%
<i>Fund Balance (est.)</i>	12,088 *	7,648	(4,440)	(36.7%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$22.5 million primarily reflects a delay in completing the Almaden Family project (\$13.8 million). Since project revenue is reimbursed as expenses are incurred, expenditure savings as described below were also realized as a result of this project delay. In addition, this variance reflects lower than budgeted loan repayment revenue (\$9.8 million) received, offset by higher than budgeted interest (\$1.0 million) and miscellaneous revenue (\$164,000) received.

The positive expenditure variance of \$14.4 million reflects savings in nearly every budgeted appropriation. The majority of the savings were realized in the Housing Loans, Grants, and Acquisitions category due to the delay in completing several multi-year projects such as the Almaden Family project described above. Savings were realized in the Debt Service payment appropriation resulting from decreased need for bond issuance and other borrowing.

The negative variance in fund balance is primarily due to the combined impact of higher than anticipated expenditures, partially offset by higher than anticipated revenues. The impact of the lower than anticipated fund balance will be offset by an increase to the revenue estimate for 20% Tax Increment collections and an increase to the Line of Credit estimate, both of which are recommended in this document. Also included in this variance is an adjustment to the 2006-2007 beginning fund balance. In reconciling the fund's 2006-2007 ending fund balance, it was determined that the 2005-2006 ending fund balance was understated by \$787,000. The combined impact of these actions will not impact the ability of this fund to deliver projects in 2007-2008.

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SPECIAL REVENUE FUNDS (CONT'D.)

Multi-Source Housing Fund

The Multi-Source Housing Fund was established July 1, 2003, and is used for revenues and expenditures from various funds such as Rental Rights and Referrals fees, Strong Neighborhoods Initiative (SNI) projects, Supplemental Redevelopment Agency funds, the Housing Opportunities for People with AIDS (HOPWA) grant and others.

***Multi-Source
Housing Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 7,870	\$ 4,853	\$ (3,017)	(38.3%)
<i>Expenditure</i>	13,222	7,402	5,820	44.0%
<i>Fund Balance (est.)</i>	6,268 *	6,288	20	0.3%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The revenue for this fund is derived from State and federal reimbursements for expenditures incurred for qualifying projects. The negative revenue variance of \$3.0 million is due to fewer reimbursements received than budgeted for various programs funded by grants. Since grant reimbursements are received in this fund as expenditures are incurred, expenditure savings, as described below, were also realized.

The expenditure variance of \$5.8 million is mostly attributed to lower than budgeted expenditures in the CalHome Program, the Workforce Housing Program, and the San José State University Teacher Homebuyer Program. Both the CalHome and Workforce Housing Programs are State-funded programs that allow expenditures over a three-year time period. The majority of these project expenditures have been rebudgeted to 2007-2008 and will be spent prior to State deadlines.

The 2006-2007 ending fund balance variance of \$20,000 is the combined result of lower than anticipated expenditures, partially offset by lower than anticipated revenues.

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SPECIAL REVENUE FUNDS (CONT'D.)

Municipal Golf Course Fund

The Municipal Golf Course Fund accounts for the construction, management, and operation of City-owned golf courses, which include the Rancho del Pueblo, Los Lagos, and San José Municipal Golf Course, and are financed through user charges.

Municipal Golf Course Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,175	\$ 2,040	\$ (135)	(6.2%)
<i>Expenditure</i>	2,247	1,982	265	11.8%
<i>Fund Balance (est. *)</i>	698 *	833	135	19.3%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$135,000 reflects mainly lower than expected revenue from all City-owned golf courses (\$162,000) and in particular, Rancho del Pueblo Golf Course (\$144,000). The lower than expected revenue was partially offset by higher than expected revenue in interest earnings (\$27,000).

Contributing factors that have resulted in the reduced operating revenues of Los Lagos and Rancho del Pueblo Golf Courses appear to include both the impact of the local economic slowdown and increased competition from additional local golf courses. Seven new courses have opened up in the San José area and neighboring communities since 1999.

The expenditure variance of \$265,000 reflects the combined impact of lower than expected expenditures in the Parks, Recreation and Neighborhood Services Department's Non-personal/Equipment appropriation (\$100,000), the Rancho del Pueblo Golf Course (\$110,000), and Los Largo Golf Course (\$54,000). Savings in the Rancho del Pueblo Golf Course occurred because of the pass-through nature of the transaction where if less revenue is received, less expenditures are recorded.

The 2006-2007 ending fund balance is higher than estimated due to lower than estimated expenditures.

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SPECIAL REVENUE FUNDS (CONT'D.)

Municipal Health Services Program Fund

The Municipal Health Services Program Fund accounts for community-based health care services to Medicare recipients at four San José clinics. Funding for this demonstration project is provided by the federal Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration.

***Municipal Health
Services Program
Fund
(\$000s)***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 5,175	\$ 3,208	\$ (1,967)	(38.0%)
<i>Expenditure</i>	5,146	4,276	870	16.9%
<i>Fund Balance (est.)</i>	12 *	14	2	16.7%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$1,967,000 is primarily due to lower reimbursements for Medicare claims payments (\$1,884,000) and City administrative costs (\$70,000). The expenditure variance of \$870,000 is primarily due to savings for Medicare claims payment (\$819,000), certified costs reports (\$10,000), Parks, Recreation and Neighborhood Services Department's Personal Services (\$33,000) and Non-Personal/Equipment (\$5,000) appropriations. It should be noted that since the Medicare claims payment is a cost reimbursement grant, revenue is received based on reimbursement for services delivered by clinics that provide services to the elderly. In addition, budgeted amounts related to Medicare claims are estimates given to the Municipal Health Services Program by the clinics. Thus, it is difficult for the clinics to forecast patient utilization of services for a number of reasons, such as program attrition. Lastly, in 2006-2007, CMS requested that any interest or overpayments received by the City be returned. As a result, \$1.1 million was returned to CMS and included in the expenditure category. The program began in 1978 and this amount had accumulated over the life of the fund.

The fund balance ended the year slightly higher than the estimated level primarily due to the lower than estimated revenue and expenditures as discussed above.

The Centers for Medicare and Medicaid Services discontinued funding for patients in four participating cities, including the City of San José, on December 31, 2006 as a result of the termination of this federally funded program. Funding for three positions in 2007-2008 will continue until September 30, 2007 to close out the program. An adjustment of \$12,000 is

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recommended for the Overhead appropriation. The overhead cost was inadvertently left out of the 2007-2008 Adopted Operating Budget. Vacancy savings, combined with the additional fund

SPECIAL REVENUE FUNDS (CONT'D.)

Municipal Health Services Program Fund (Cont'd.)

balance, will be used to offset this adjustment. Any unexpended 2007-2008 funds will be returned to CMS as part of the program close out.

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SPECIAL REVENUE FUNDS (CONT'D.)

Public Works Program Support Fund

The Public Works Program Support Fund accounts for Public Works administrative costs, department-wide compensated absences, and non-personal/equipment costs. An annual cost allocation plan is developed to assign overhead rates based on service levels received by each program. The revenue source for this fund is transfers from the various capital funds where Public Works staff provides service. A compensated absence earned rate is also developed annually and charged to all city funds where Public Works employees provide service.

***Public Works
Program Support
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 14,321	\$ 15,229	\$ 908	6.3%
<i>Expenditure</i>	13,847	12,882	965	7.0%
<i>Fund Balance (est.)*</i>	324 *	2,705	2,381	734.9%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

There are two primary revenue categories within this fund: capital program support transfers and compensated absence transfers. The positive revenue variance of \$908,000 is the result of higher than budgeted capital program support transfers, partially offset by lower than budgeted compensated absence transfers. Capital program support transfers exceeded budgeted levels due to the recovery of 2005-2006 under-collections that were built into the cost allocation plan but not into the budgeted revenue estimate. Higher than anticipated capital program expenditures also contributed to the capital program support transfers variance, as expenditures in the capital program are the base upon which capital program support transfers are calculated.

Compensated absence transfers were lower than budgeted due to a significant number of Public Works position vacancies that resulted in lower than anticipated compensated absence expenditures. The 2007-2008 capital program support and compensated absence rates are in the process of being reviewed, and may be revised in the coming months, if necessary.

The positive expenditure variance reflects savings in nearly every expenditure category, which include: administrative costs, Equality Assurance costs, non-personal/equipment, and compensated time off.

The 2006-2007 fund balance variance of \$2.4 million is the result of higher than anticipated revenues, combined with lower than estimated expenditure levels, as discussed above. In the

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SPECIAL REVENUE FUNDS (CONT'D.)

Public Works Program Support Fund (Cont'd.)

development of the 2007-2008 cost allocation plan for this fund, the fair-share cost allocation for each program will be adjusted for any 2006-2007 over or under-collections.

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SPECIAL REVENUE FUNDS (CONT'D.)

Special Assessment Maintenance District Funds

The Special Assessment Maintenance District Funds account for the maintenance districts that were created to provide special services for areas or items not considered to be normal City maintenance. In 2006-2007, the City operated fourteen maintenance districts and three community facility districts.

***Special Assessment
Maintenance District
Funds***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 4,321	\$ 4,288	\$ (33)	(.8%)
<i>Expenditure</i>	5,400	4,367	1,033	19.1%
<i>Fund Balance (est. *)</i>	9,308 *	9,433	125	1.3%

**Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.*

The negative revenue variance of \$33,000 is the result of receipts that trended slightly lower than anticipated in several of the districts. In particular, revenues were below budgeted projections by \$139,000 in Community Facilities District #8 (Communications Hill) due to the delay in obtaining construction permits. Also, revenues were below budgeted projections by \$46,000 in Maintenance District #15 (Silver Creek Valley) as a result of credits given to residents due to aggressive contract negotiations that reduced funding needs. In contrast, Maintenance District #1 (Los Paseos) revenues exceeded budgeted projections by \$86,000 because of a higher than expected increase in property tax revenue which is unique to this district. Also, revenues exceeded budgeted projections by \$34,000 in Community Facilities District #2 (Aborn – Murillo) and Community Facilities District #3 (Silverland – Capriana) due to accelerated development of supplemental units in these districts. Revenue variances in the 13 remaining funds were all below \$15,000.

Savings of approximately \$1.0 million in the expenditure category in all funds combined reflects lower than anticipated maintenance costs in most districts. Given the economic downturn, districts that renegotiated maintenance contracts received favorable bids. Further savings were generated as part of a concerted effort by staff to reduce costs while maintaining service levels. Two districts, in particular, had large expenditure variances. The Community Facilities District #8 (Communications Hill) had an expenditure savings of \$341,000 primarily due to the delay in acceptance of the new construction by the developers. The following districts generated savings as a result of delays in completion of planned renovation projects: Maintenance District #15

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SPECIAL REVENUE FUNDS (CONT'D.)

Special Assessment Maintenance District Funds (Cont'd.)

(Silver Creek Valley) expenditures were \$310,000 lower than budgeted levels, Maintenance District #20 (Renaissance – North First Landscaping) expenditures were \$77,000 lower than budgeted levels, and Maintenance District #1 (Los Paseos) expenditures were \$51,000 lower than budgeted levels. Community Facilities District #2 (Aborn – Murillo) and Community Facilities District #3 (Silverland – Capriana) expenditures were \$58,000 lower than budgeted levels due to savings in contractual services and electricity. Expenditure variances in the 12 remaining funds were all below \$50,000.

The combined ending fund balance variance of \$125,000 is due to higher than anticipated revenues of \$180,000, which is slightly offset by actual expenditures that exceeded the estimate by \$55,000.

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SPECIAL REVENUE FUNDS (CONT'D.)

State Drug Forfeiture Fund

The State Drug Forfeiture Fund was established to account for State drug forfeiture monies received whenever the Police Department is involved in asset seizures from convicted drug law violators. Monies deposited in this fund shall be expended or disbursed for use by the Police Department for equipment and programs designed to combat drug abuse and divert gang activity.

***State Drug
Forfeiture Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 40	\$ 196	\$ 156	390.0%
<i>Expenditure</i>	106	84	22	20.8%
<i>Fund Balance (est. *)</i>	1,483 *	1,520	37	2.5%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

This fund received monies from the State pursuant to California Health and Safety Code Section 11489. City Council guidelines for this fund stipulate that seizure monies are to be used for financing of programs or costs required for the direct or indirect enhancement of narcotics-related enforcement activities. There are no time restrictions dictating when the money must be expended or encumbered.

The 2006-2007 revenue variance of \$156,000 is the result of higher than anticipated interest earnings as well as higher than estimated revenue from the State.

The 2006-2007 expenditure variance of \$22,000 is the result of State revenue funds not being fully expended.

The 2006-2007 fund balance variance of \$37,000 is the result of expenditure savings and higher than estimated revenue collections.

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SPECIAL REVENUE FUNDS (CONT'D.)

Stores Fund

This fund accounts for the purchase and issuance of materials and supplies and payment for postage consumed by departments for general operations.

Stores Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,890	\$ 3,748	\$ (142)	(3.7%)
<i>Expenditure</i>	4,779	4,408	371	7.8%
<i>Fund Balance (est. *)</i>	286 *	839	553	193.4%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

At the end of 2006-2007, revenues were 3.7% (\$142,000) below budgeted levels, reflecting lower than budgeted transfers from departments for the issuance of supplies and materials and payment for postage, partially offset by higher than anticipated revenue collections in the Hydrant Sales category.

Expenditures were 7.8% (\$371,000) below budgeted levels primarily due to lower than budgeted postage and inventory (\$129,000), personal services (\$101,000), and non-personal/equipment expenditures (\$123,000). Additional savings were realized in the Workers Compensation Claims payment appropriation (\$18,000).

The 2006-2007 Ending Fund Balance ended the year \$553,000 higher than the estimated level. This is due to higher than anticipated revenues, partially offset by higher than anticipated expenditure levels.

It should be noted, however, that the budgetary fund balance reported in this document is \$243,000 lower than the fund balance which will be reported in the 2006-2007 CAFR. This reflects the fact that the fund balance as defined for budgetary purposes does not include an item (Materials Inventory ending balances) used to calculate fund balances for financial reporting purposes.

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SPECIAL REVENUE FUNDS (CONT'D.)

Storm Sewer Operating Fund

The Storm Sewer Operating Fund was established to provide for the acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system. With the establishment of the Storm Sewer Capital Fund in 1994-1995 (which is funded primarily through transfers from this fund), expenditures are focused on non-point source pollution reduction, along with the maintenance and operation of the storm drainage system.

***Storm Sewer
Operating
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 15,928	\$ 16,570	\$ 642	4.0%
<i>Expenditure</i>	19,578	17,274	2,304	11.8%
<i>Fund Balance (est.)</i>	2,821 *	5,014	2,193	77.7%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

The positive revenue variance (\$642,000) is due to higher than budgeted storm drainage assessments (\$456,000) and penalties and interest earnings (\$186,000).

Expenditure savings of \$2.3 million were primarily produced in the Environmental Services Department's Personal Services appropriation (\$92,000) and Non-Personal/Equipment appropriation (\$519,000), the Department of Transportation's Personal Services appropriation (\$673,000) and Non-Personal/Equipment (\$393,000) appropriation, and Overhead costs (\$434,000).

The ending fund balance ended the year \$2.2 million higher than the estimated levels. This variance was due to the combined impact of the lower than estimated expenditures and higher than anticipated revenues as discussed above.

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SPECIAL REVENUE FUNDS (CONT'D.)

Supplemental Law Enforcement Services Fund

The Supplemental Law Enforcement Services Fund (SLES) was established to provide front line law enforcement services, which includes, but is not limited to, intervention, anti-gang, and community crime prevention activities.

***Supplemental Law
Enforcement Services Fund***

((\$000s))	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,891	\$ 1,961	\$ 70	3.7%
<i>Expenditure</i>	3,507	1,921	1,586	45.2%
<i>Fund Balance (est. *)</i>	1,798 *	1,672	(126)	(7.0%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

This fund receives monies from the State in accordance with the proportionate share of the State's total population that resides in the City. The funding is awarded each fiscal year in the form of a two-year grant. Any funds unexpended or unencumbered by the end of the two-year grant cycle must be returned to the State, along with any interest earnings.

The 2006-2007 revenue variance of \$70,000 is the result of higher than anticipated interest earnings.

The 2006-2007 expenditure variance of \$1.6 million is the result of the 2006-2008 SLES grant funds not being fully expended. These funds were rebudgeted in the 2007-2008 Adopted Budget. This variance also includes 2004-2006 SLES and 2005-2007 SLES funds and interest earnings (\$17,000) that were unexpended and unencumbered and must be returned to the State.

The 2006-2007 fund balance variance of (\$126,000) is the result of higher than anticipated expenditures in the 2006-2008 SLES grant, causing the allocation not to achieve sufficient year-end savings to cover the original rebudget amount. As a result, downward adjustments are recommended to this appropriation in this document.

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SPECIAL REVENUE FUNDS (CONT'D.)

Transient Occupancy Tax Fund

The Transient Occupancy Tax (TOT) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is less than 30 days. The tax rate is currently 10%, six percent of which is placed in this fund and four percent of which is deposited in the General Fund. The uses of revenues from the TOT Fund are specified by City Ordinance and include subsidies for Convention Facilities operations and the San José Convention and Visitors Bureau as well as grants and rental subsidies for arts and cultural programs.

Transient Occupancy Tax Fund

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 11,288	\$ 12,970	\$ 1,682	14.9%
<i>Expenditure</i>	14,000	12,579	1,421	10.2%
<i>Fund Balance (est.)</i>	3,753 *	4,176	423	11.3%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

Due to higher than expected receipts and interest earnings, actual 2006-2007 revenues in the TOT Fund exceeded the budgeted amount by almost \$1.7 million.

When the 2006-2007 Adopted Operating Budget was developed, \$11.2 million was budgeted to be received. This was a 7% increase over the 2005-2006 year-end estimates. Revenues in 2006-2007, however, ended the year 11.1% above the 2005-2006 actuals due to higher than anticipated room rates and occupancy levels. The average room rate for the City's 14 largest hotels grew from \$120 to \$133 over the year. The average occupancy rate for the same hotels grew from 57.7% to 59.9%.

The positive expenditure variance of \$1.4 million reflected savings in the Cultural Grant program (\$1.33 million) and Short Term Loans (\$90,000). A portion of these savings (\$1.3 million) was anticipated and rebudgeted as part of the 2007-2008 Adopted Operating Budget. The remaining \$28,076 is recommended in this document to be rebudgeted to 2007-2008.

TOT Fund tax revenue is by ordinance shared by three groups, the Convention Facilities Operation Subsidy (50%), the San José Convention and Visitors Bureau (25%), and Cultural Grants (25%). This report, therefore, contains the proposed appropriation adjustment actions required to distribute excess collections to the three groups. An increase of \$150,000 is

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SPECIAL REVENUE FUNDS (CONT'D.)

Transient Occupancy Tax Fund (Cont'd.)

recommended for the Convention Facilities Operation Subsidy. An increase of \$75,000 is recommended for the San José Convention and Visitors Bureau, and an increase of \$103,000 for the Cultural Grants appropriation is recommended, which includes the \$28,000 in rebudgets discussed above.

The 2006-2007 ending fund balance is higher than estimated due to the combination of higher than expected revenues and lower than estimated expenditures.

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SPECIAL REVENUE FUNDS (CONT'D.)

Vehicle Maintenance and Operations Fund

The Vehicle Maintenance and Operations Fund accounts for the operation, maintenance, and replacement of all City vehicles and equipment.

Vehicle Maintenance and Operations Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 22,322	\$ 20,731	\$ (1,591)	(7.1%)
<i>Expenditure</i>	23,384	21,991	1,393	6.0%
<i>Fund Balance (est. *)</i>	1,778 *	2,194	416	23.4%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$1.6 million primarily reflects lower than budgeted revenues from replacement charges, vehicle maintenance and operations departmental charges, as well as lower than budgeted Clean Air Heavy Vehicle Retrofit Grant revenue received.

The positive expenditure variance of \$1.4 million reflects savings in nearly every budgeted category. Savings in the vehicle replacement appropriation (\$661,000) is partially due to a reduction in the number of marked vehicles that needed to be replaced in 2006-2007. This reduction was largely due to the Police Department vehicle rotation program that more efficiently spread mileage among the Department's vehicle fleet. In addition, the expenditure variance reflects savings in inventory purchases (\$546,000), personal services and non-personal/equipment appropriations (\$124,000), and the Clean Air Heavy Vehicle Retrofit Grant program (\$19,000).

The positive ending fund balance variance of \$416,000 is primarily the result of an under-collection of departmental charges, offset by higher than anticipated transfers for vehicle replacements. In addition, this variance also reflects a delay in reimbursement for the Clean Air Heavy Vehicle Retrofit program. The remaining reimbursement for this program is expected to be processed in 2007-2008.

It should be noted, however, that the budgetary fund balance reported in this document is \$2.3 million lower than the fund balance which will be reported in the 2006-2007 CAFR. The fund balance used for budgetary purposes does not include the change in beginning and ending Materials Inventory balances and Unrealized Gains and Losses for estimated liabilities. These non-budgetary items are, however, incorporated into the CAFR fund balance figure.

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SPECIAL REVENUE FUNDS (CONT'D.)

Workforce Investment Act Fund

The Workforce Investment Act is a federal program that provides primary employment and training services to dislocated and low-income residents. This fund is a memo fund to the General Fund for governmental accounting purposes.

On July 1, 2000 the Workforce Investment Act (WIA) replaced the Job Training Partnership Act (JTPA), and the City of San José assumed administration and fiscal liability for this program. There are three categories of funding under WIA which correspond to the three populations being served: Adult, Dislocated Worker, and Youth. San José's Workforce Investment Area receives grants from the State and federal governments for these three categories.

Workforce Investment Act Fund

	(\$000s)				Percent Variance
	Budget	Actual	Variance		
<i>Revenue</i>	\$ 19,398	\$ 15,656	\$ (3,742)		(19.3%)
<i>Expenditure</i>	20,133	16,759	3,374		16.8%
<i>Fund Balance (est. *)</i>	0 *	(368)	(368)		N/A

The variance between revenues and expenditures primarily reflects the timing difference in expense and revenue recognition.

The fund ended the year with a negative unrestricted ending fund balance of approximately \$368,000 due to the accounting treatment of federal reimbursements due to this program. The negative balance reflects the late posting of revenue and carryover encumbrances for committed expenses at the end of 2006-2007. Because revenue is received by the fund on a reimbursement basis, at year end, there was insufficient revenue recognized in the fund to cover the encumbered amount (\$1.2 million). Under the current WIA contract with the State, expenses will only be reimbursed when funds are actually spent, not just committed. When the encumbered amounts are actually expended, the revenue will become available to cover the costs.

In developing the 2007-2008 Adopted Budget for the Workforce Investment Network (WIN), funding allocations included were 2006-2007 program contingency funds, 2006-2007 projected savings, and 2007-2008 State allocations. Included in this report are recommendations to adjust program budgets for 2007-2008, and to recognize additional funding received from the State for the Veterans' Employment and Training Service and a State Incentive award for exemplary performance in 2006-2007.